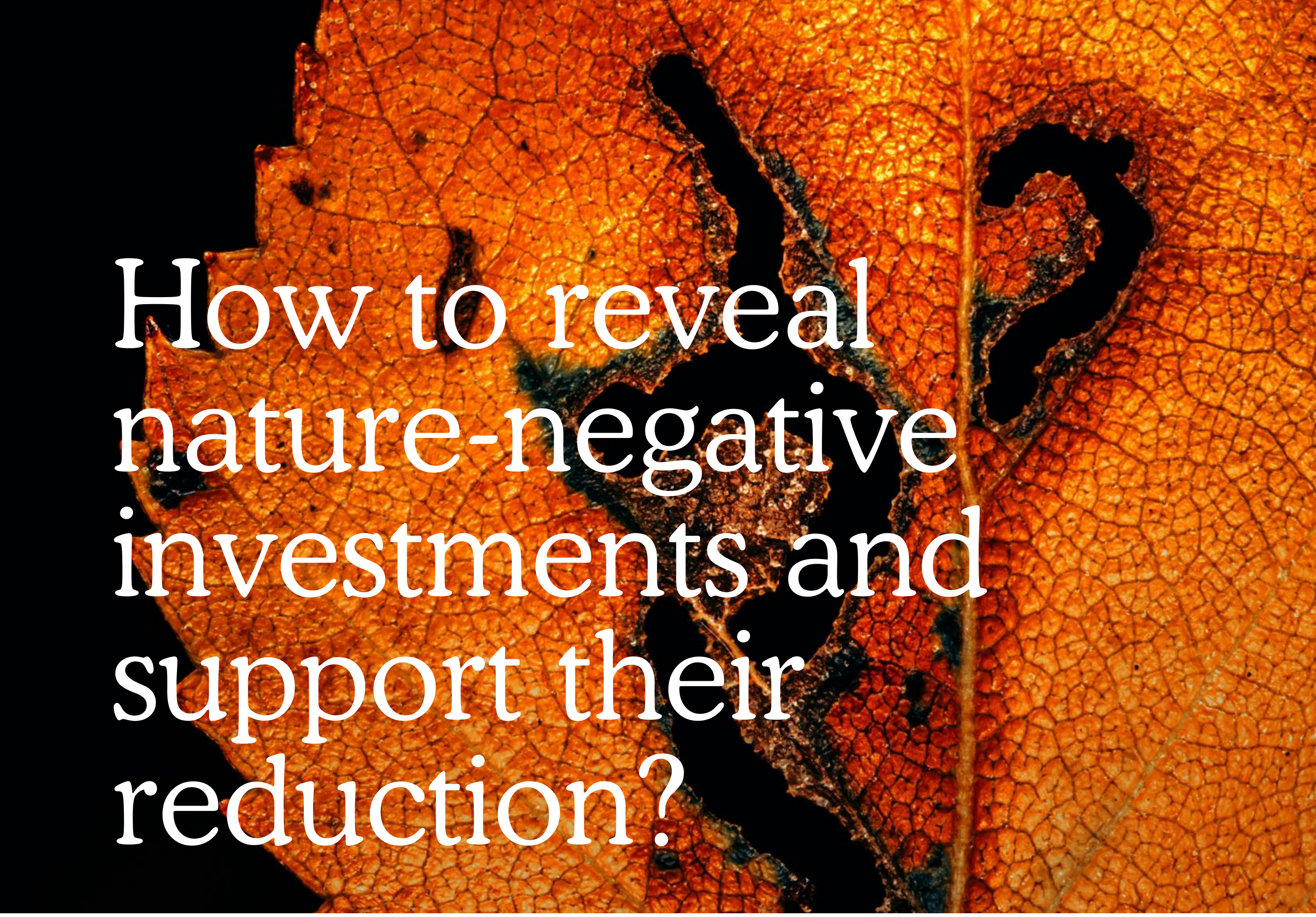

How to reveal nature-negative investments and support their reduction?

Improving the regulatory framework for principal adverse impact (PAI) disclosures under SFDR to better reveal investments in activities harming biodiversity and support their reduction

Finance ClimAct

With the contribution of the European Union LIFE program

About 2° Investing Initiative

2° Investing Initiative (2DII) is an independent, non-profit think tank working to align financial markets and regulations with climate and nature goals.

2DII coordinates some of the world's largest research projects on sustainable finance. Our team of experts in sustainable finance, law, policy and data management develop research, tools and policy insights to help financial institutions and regulators hasten and adapt to the green transition.

To ensure our independence and the intellectual integrity of our work, we have a multi-stakeholder governance and funding structure, with representatives from a diverse array of financial institutions, governments and NGOs.

2DII's Nature-Finance stream is an innovative research program composed of finance, policy and regulatory experts. The stream aims to contribute to the creation of a nature-positive and a net-zero economy and society, ensuring the principles of the Just Transition.

Authors of this report:
Samia Baadj
David Cooke
Lisa Bacon
Benjamin Bailey
Luwana Schall
Maximilien Boyne

Published in November 2024

This work is available at this link.

This work reflects only the views of 2DII. The European Commission and other members of the Finance ClimAct Consortium are not responsible for any use that may be made of the information it contains.

Executive summary

In a context of acute biosphere alteration spawning impacts on Earth and human societies, the Global Biodiversity Framework (GBF) has set objectives to halt and reverse biodiversity loss and ensure that by 2050 we live in harmony with nature. This ambition requires a transition of our economy towards a nature-positive economy and calls for a reorientation of financial flows towards activities that are less harmful to biodiversity and contribute to biodiversity conservation and protection.

To effect this change, the EU has adopted the Biodiversity Strategy for 2030 to align with the GBF and has designed regulations meant to incentivise nature-positive investments and reduce nature-negative investments. For the latter purpose, the SFDR establishes the concept of principle adverse impacts (PAIs) and requires relevant financial market participants to disclose the negative impacts associated with their investments, at the entity level and the financial product level.

The PAI regulatory mechanism could potentially help reveal nature-negative investments and monitor their reduction. However, the current framework falls short of ensuring a comprehensive and accurate identification of nature-negative investments and does not sufficiently incentivise their reduction. This paper delves into the regulatory gaps and inconsistencies that currently prevent the effectiveness of the PAI framework for biodiversity topics (several findings are also relevant for other sustainability topics).

First, the PAI framework targets the wrong financial products and leaves activities with the most significant negative impact on biodiversity out of the mandatory disclosure scope. Moreover, the scarcity of biodiversity-related metrics for which disclosure is mandatory does not allow for any comprehensive and consistent reporting on biodiversity impacts. The flexibility given to financial market participants in their choice of additional indicators to account for also impedes a comparable assessment of investment impacts on biodiversity. Additional inconsistencies stem from the dependency of financial market participants on the materiality assessment realized by their investee companies under the CSRD for their own disclosure. Moreover, financial market participants may not have, in practice, access to information about the negative biodiversity impacts of non-EU activities. Lastly, financial market participants currently lack clear guidance and supervision on how to use PAIs towards transition.

Solving the current problems related to information on, and reduction of, nature-negative investments must be achieved in a political context where the Commission has set a target of reducing burdens associated with reporting requirements by 25%. Notwithstanding this stated ambition, this paper shows there is still a significant gap in relation to disclosure requirements linked to nature-negative investments. Navigating the path between ensuring we get the right biodiversity disclosures while at the same time not increasing the reporting burden is a difficult undertaking, particularly considering the timeline of when the various regulatory requirements apply and the short to medium term Biodiversity goals.

One key aspect to be considered in this discussion is the need to increase the utility of the PAI framework. It is essential to design the right regulatory framework so that disclosure of sustainability information is not an end to itself, but rather be translated into practical transition plans and serve as a useful tool within a broader policy framework aiming to reduce nature-negative investments. Moreover, in the specific case of nature and biodiversity, it remains very necessary to improve indicators and metrics contained in SFDR.

This paper reveals that there is still a lot more work to be done to ensure that the EU regulatory framework effectively contributes to Biodiversity goals. The gaps and inconsistencies we identified can be used to draw a roadmap of areas to improve. Several areas should be investigated, such as revising the scope of financial market participants subject to PAIs disclosure to better target nature-negative investments, refining the list of mandatory PAI indicators and metrics for biodiversity and nature, ensuring the completeness of information provided by investee companies, campaigning for alignment on regulatory disclosures at international level and designing incentives for PAIs disclosures in relation to the promotion of nature-transition investment strategies.

Contents

Introduction

At international level, the *Kunming-Montreal Global Biodiversity Framework*[1] (**GBF**) is hailed as a historic landmark establishing the critical importance of biodiversity conservation. 'Biodiversity is fundamental to human well-being, a healthy planet, and economic prosperity for all people, including for living well in balance and in harmony with Mother Earth. We depend on it for food, medicine, energy, clean air and water, security from natural disasters as well as recreation and cultural inspiration, and it supports all systems of life on Earth.'[2] The GBF recognises the scientific warning: '[t]he biosphere, upon which humanity as a whole depends, is being altered to an unparalleled degree across all spatial scales. Biodiversity – the diversity within species, between species and of ecosystems – is declining faster than at any time in human history.'[3] And it 'aims to catalyse, enable and galvanize urgent and transformative action by Governments, and subnational and local authorities, with the involvement of all of society, to halt and reverse biodiversity loss.'[4]

The GBF establishes 4 goals and 23 targets to halt and reverse biodiversity loss and ensure that by 2050 we live in harmony with nature. These include securing adequate financial resources to close the biodiversity finance gap of $700 billion per year[5] and ensuring that biodiversity disclosures for businesses and financial institutions help progressively reduce negative impacts on biodiversity, increase positive impacts and mitigate biodiversity-related risks for businesses and financial institutions.[6]

At EU level, the *EU Biodiversity Strategy for 2030*[7] (the **Biodiversity Strategy**) sets out a comprehensive roadmap for biodiversity conservation and restoration within the EU. It similarly recognises the need to mobilise the financial sector to support biodiversity and aims to unlock at least €20 billion per year for biodiversity initiatives through mobilising private and public funding at national and EU level.[8] It points to various regulatory initiatives (which will be discussed in this paper) which are designed to ensure that the financial system contributes to mitigating biodiversity risks and similarly emphasises the importance of disclosures as an incentive mechanism to reduce negative impacts on biodiversity and increase positive impacts.

Reaching EU and international biodiversity goals implies a transition of our economy towards a nature-positive[9] economy. This requires mobilising the finance sector to reorient financial flows towards activities that are less harmful to biodiversity and/or contribute to biodiversity conservation and protection.[10] And well-designed biodiversity disclosure requirements are a key mechanism to effect this change.

The principal EU disclosure requirements which are intended to help reorient financial flows to support the goals of the Biodiversity Strategy include the Corporate Sustainability Reporting Directive[11] (**CSRD**) which defines disclosure requirements for sustainability information, the **Taxonomy Regulation**[12] which categorises sustainable economic activities, and the Sustainable Finance Disclosure Regulation[13] (**SFDR**) which defines

---

[1] Convention on Biological Diversity, 2022, CBD/COP/DEC/15/4
[2] CBD/COP/DEC/15/4. Annex Kunming-Montreal Global Biodiversity Framework, Section A, Paragraph 1
[3] CBD/COP/DEC/15/4. Annex Kunming-Montreal Global Biodiversity Framework, Section A, Paragraph 2
[4] CBD/COP/DEC/15/4. Annex Kunming-Montreal Global Biodiversity Framework, Section B, Paragraph 4
[5] CBD/COP/DEC/15/4. Annex Kunming-Montreal Global Biodiversity Framework, Goal D
[6] CBD/COP/DEC/15/4. Annex Kunming-Montreal Global Biodiversity Framework, Target 15
[7] European Commission, 2022, EU Biodiversity Strategy for 2030 COM(2020) 380 final
[8] European Commission, 2022, EU Biodiversity Strategy for 2030 COM(2020) 380 final
[9] A nature-positive approach enriches biodiversity, stores carbon, purifies water and reduces pandemic risk. In short, a nature positive approach enhances the resilience of our planet and our societies (see World Economic Forum, 2021, What is 'nature positive' and why is it the key to our future).
[10] Especially in the current political context where the main lever foreseen is not to review the paradigms of our economy through strong and direct political actions. Such strong political actions could for instance consist in directly forbidding or diminishing biodiversity-damaging practices.
[11] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting
[12] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
[13] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

disclosure requirements for sustainability information by financial institutions and financial products.[14] These three pieces of legislation articulate requirements for all sectors of the economy to disclose sustainability information (including biodiversity).

Recognising that these regulatory requirements are still under development, there are nevertheless several concerns about whether they adequately integrate biodiversity aspects[15] and, consequently, whether they will be effective in helping to reorient financial flows to support the goals of the Biodiversity Strategy or international commitments.

Reaching EU and international biodiversity goals implies increasing investments in activities with positive impact on biodiversity (e.g. financing restoration and conservation projects) (**nature-positive investments**) and reducing investments in activities with negative impact on biodiversity (**nature-negative investments**) notably through supporting the transition of harmful activities.[16] Specific aspects of the EU regulatory framework are intended to incentivise increasing nature-positive investments and reducing nature-negative investments. For instance, nature-negative investments are notably linked to the concept of principal adverse impacts (**PAIs**) established in the SFDR, while nature-positive investments are principally linked to the definition of economic activities substantially contributing to the protection and restoration of biodiversity and ecosystems in the Taxonomy Regulation. Both actions are needed to achieve Biodiversity goals but, for the purpose of clarity, this paper will focus on the incentives linked to reducing nature-negative investments.[17]

In the context of disclosures designed to reduce nature-negative investments, the PAIs addressing biodiversity issues are particularly relevant. PAIs or 'Principal Adverse Impacts' are the most significant negative impacts of investments on the environment and people. It is a concept introduced in the EU regulatory framework by SFDR. PAI is currently the principal (if not the only)[18] regulatory mechanism that has the potential to reveal nature-negative investments and could potentially enable monitoring the reduction of nature-negative investments over time. However several gaps and inconsistencies in the current PAI framework prevent properly revealing nature-negative investments and thus monitoring their reduction.

This paper reviews the EU regulatory framework which relates to PAIs for biodiversity and the extent to which it is adequate as an incentive mechanism to reduce nature-negative investments.

- Section 1 explains the concept of PAIs established in the SFDR and delegated regulation in relation to biodiversity aspects.
- Section 2 digs further into current gaps and inconsistencies preventing an efficient disclosure and use of PAIs to reveal and reduce nature-negative investments.

The conclusion of the paper provides a roadmap of areas to improve and potential solutions to investigate to fix gaps and inconsistencies linked to PAIs for biodiversity in order to reveal nature-negative investments and better support their reduction.

---

[14] Other regulations also exist such as the Nature Restoration Law or the complementary Farm to Fork Strategy, though it falls under the lens of the EU Green Deal as opposed to the Biodiversity Strategy per se. Additionally, a proposal for a regulation establishing an EU Forest Monitoring Law has been adopted by the Commission and awaits full scale adoption.

[15] ADEME, CGDD, 2024, Building a biodiversity approach. Available at: https://librairie.ademe.fr/ged/8721/Guide_biodiv_Art29LEC_vpublie_EN_final_20240320__1_.pdf ; see also World Benchmarking Alliance, 2024, Nature Benchmark (2022-2024). Available at: https://www.worldbenchmarkingalliance.org/publication/nature/

[16] In this paper we may refer to both the words nature and biodiversity. Whereas biodiversity can be defined as the variety of all living things and their interactions, the term nature is wider and includes non-livings things such as minerals or even natural processes. In the paper we have a specific focus on biodiversity goals and indicators addressing harm to biodiversity, however we often use the word nature since our analysis on the functioning of PAIs also includes indicators addressing other natural elements. Moreover, several inconsistencies and gaps revealed in this paper are relevant for negative impacts not only on biodiversity but on nature in general.

[17] Please note that 2DII also plans to carry out legal and regulatory analysis to support nature-positive investments.

[18] We will see later in the paper that the DNSH principle is also linked to nature-negative investments but does not allow any measuring or tracking. Moreover, the Corporate Sustainability Due Diligence Directive (CSDDD), published in the Official Journal on 5 July 2024, exempts financial institutions from due diligence to identify, mitigate and remedy potential adverse impacts, whether human rights or environmental, in their downstream "chain of activities" receiving their services and products, such as loans and finance.

Section 1

Explaining principal adverse impact indicators linked to biodiversity

This section describes the concept of principal adverse impact indicators established in the SFDR and delegated regulation and provides preliminary observations on how effective these currently are in relation to helping reorient financial flows to support the goals of the Biodiversity Strategy or international commitments. It also highlights the potential power of PAIs for biodiversity. This section provides the background rationale for the deeper analysis articulated in the next section about key gaps and inconsistencies for PAI disclosures for biodiversity.

1.1 Main biodiversity reporting frameworks and their interconnection

The EU sustainable finance disclosure framework includes the CSRD, the Taxonomy Regulation and the SFDR. These cover a range of different sustainability aspects (including biodiversity) and are intended to operate together to support reorienting finance towards *sustainable economic activities* (i.e. economic activities that increase positive environmental impacts in the sense of the Taxonomy Regulation or that reduce negative impacts on sustainability factors in the sense of SFDR). The Taxonomy Regulation provides a classification system for sustainable economic activities that is applied, and referred to, within the CSRD and the SFDR. Information disclosed by companies in scope of the CSRD is used by financial institutions to compile their disclosures under SFDR.

While these are the principal requirements at EU level, national level reporting requirements and international voluntary frameworks may also contribute to increasing the biodiversity related information available. At the French level for example, the "Stratégie Nationale Biodiversité 2030"[19] in line with the EU Biodiversity Strategy, defines positions and implementation measures to preserve biodiversity. Biodiversity disclosures for financial investors in France is regulated by article 29 of the Energy and Climate Law (article 29 LEC). At the international level, several voluntary frameworks exist such as the TNFD and the SBTN.

1.2 The concept of principal adverse impact

The concept of PAIs is established in the SFDR. Although it is not a defined term, the concept should be understood as 'those impacts of investment decisions and advice that result in negative effects on sustainability factors'[20] where sustainability factors are defined as 'environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.'[21]

Various provisions in the SFDR refer to and require disclosure of adverse impacts of investment decisions on sustainability factors. And the SFDR delegated legislation[22] (the **PAI Delegated Regulation**) then articulates specific PAI metrics and indicators which should be disclosed. Broadly speaking relevant financial market

[19] The French National Biodiversity Strategy for 2030 (SNB3)
[20] Recital 20 SFDR
[21] Art 2(24) SFDR
[22] Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports

participants must disclose PAIs at entity level[23] through an annual PAI statement[24] on a website and at product level[25] by publishing PAI information in pre-contractual financial product documentation.[26]

1.3 Entity level PAI disclosures

The annual PAI statement provided by a financial market participant describes how it considers relevant PAIs of investment decisions on sustainability factors. Publication of the PAI statement is mandatory for financial market participants with 500 or more employees during the financial year to which the particular PAI statement relates. For other financial market participants (below 500 employees), those which include any PAI in their investment decisions or advice should explain in their PAI statement how they do this, while those who do not consider any PAI should explain why not (i.e. a comply or explain approach).[27]

The PAI Delegated Regulation includes a PAI statement template which articulates the specific PAI metrics and indicators which should be disclosed in the PAI statement.[28] These cover a wide range of environmental, social and governance (**ESG**) risks although there is a degree of flexibility allowed to financial market participants to choose different PAI metrics and indicators. The PAI statement template is completed by: (1) completing all fields that relate to the indicators related to PAIs as set out in Table 1 of the PAI statement template (2) adding information on one of more additional climate and other environment-related indicators as set out in Table 2 of the PAI statement template (3) adding information on one or more additional indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters as set out in Table 3 of the PAI statement template and (4) information on any other indicators used to identify PAIs on a sustainability factor.[29] In addition, financial market participants should describe actions already taken and planned actions or targets to reduce PAIs on sustainability factors.

The PAI statement should relate to reference periods that run from 1 January until 31 December and for subsequent reporting years financial market participants should provide a historical comparison of the period reported on with every previous period reported up to the last five previous periods.[30]

1.4 Financial product level PAI disclosures

Financial market participants must also disclose information about PAIs at financial product level. SFDR requires financial market participants who consider PAIs at entity level to indicate in the pre-contractual documentation whether their financial products consider PAIs.[31] Other financial market participants may adopt a comply or explain approach.[32] Information on PAIs at product level must be included in the pre-contractual documentation for relevant financial products[33] and the requirement operates independently of the specific disclosure requirements articulated for Article 8 and Article 9 products.[34]

[23] Art 4 SFDR. This requirement applies to both financial market participants and financial advisers however in this paper we focus on the requirement as if applies to financial market participants.
[24] Note however this is not a defined term in the SFDR.
[25] Art 7 SFDR. This requirement applies to financial market participants only.
[26] As described in Art 6 SFDR
[27] Art 4 SFDR
[28] Table 1 of Annex 1 PAI Delegated Regulation
[29] Art 6 PAI Delegated Regulation
[30] Art 10 PAI Delegated Regulation
[31] Art 7 SFDR
[32] If no PAI on sustainability factors are considered for a certain financial product, the pre-contractual information must include a statement to this effect, including the reasons for non-consideration. In case any PAI on sustainability factors are considered, the pre-contractual disclosure for each individual financial product must include a detailed description of how this is done.
[33] As listed in Art 7 SFDR
[34] The relation between categories of article 8 and 9 products and principal adverse impact indicators is unclear. In SFDR PAI disclosure and categories 8 and 9 are not linked. Moreover SFDR templates for articles 8 and 9 mention a possibility to consider PAIs and not an obligation. On the other hand, the ESAs clarified that in relation to the disclosure of DNSH for sustainable investments under Article 2(17) SFDR: “the use of PAI indicators is mandatory to demonstrate that an investment qualifies as a sustainable investment. The PAI indicators to be used are the ones in Table 1 of Annex 1 and any relevant indicators in Tables 2 and 3 of Annex I”. They add “that using

In contrast to the PAI statement template for entity level disclosures, the SFDR and the PAI Delegated Regulation do not stipulate a specific format for the financial product level PAI disclosures. There are templates for disclosing pre-contractual information and periodic information for Article 8 and Article 9 products[35] but these do not stipulate detailed requirements on how to publish PAI information.

This means that financial market participants considering PAIs are afforded even more flexibility to tailor product level PAI disclosures at financial product level compared to entity level disclosures.

1.5 Current extent of biodiversity integration in PAI disclosures

Financial market participants composed of over 500 employees or those which are parent undertakings of companies with over 500 employees must disclose, at entity level, how they consider PAIs in their investment decisions by following the template described in the PAI Delegated Regulation. Financial market participants below the threshold can decide to comply with the requirements or to explain why they do not comply.[36]

The template for the statement on PAIs of investment decisions on sustainability factors[37] is composed of 14 mandatory indicators applicable to investments in investee companies, among which 9 are climate and environment-related and 5 address social, human rights and anti-corruption considerations. The list of mandatory indicators includes one mandatory indicator directly related to biodiversity. Financial market participants considering PAIs must disclose information on investments in *Activities negatively affecting biodiversity-sensitive areas*[38] and the associated metric is 'share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas.' The list of mandatory indicators also establishes metrics more indirectly linked to nature and biodiversity such as emissions to water and hazardous waste and radioactive waste ratio.

The PAI Delegated Regulation also provides a series of additional indicators[39] that can be optionally reported on. Financial market participants that consider PAIs must report on at least one additional environmental indicator and one additional social indicator. Among the environmental indicators, many are not labelled as biodiversity indicators but are linked to biodiversity (since they relate to the direct drivers of biodiversity loss[40]):

- Land degradation, desertification, soil sealing ('[s]hare of investments in investee companies the activities of which cause land degradation, desertification or soil sealing');
- Investments in companies without sustainable land/agriculture practices ('[s]hare of investments in investee companies without sustainable land/agriculture practices or policies');

PAI indicators to fulfil the DNSH of SFDR does not require any PAI consideration at entity level". In addition, "sustainability indicators used to measure the attainment of the environmental or social characteristics (for Article 8 SFDR financial products) or sustainable investment objective (e.g. the impact of the financial product for Article 9 SFDR products) may include PAI indicators." (Q.22 of Consolidated questions and answers (Q&A) on the SFDR (Regulation (EU) 2019/2088) and the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022/1288)). It then seems that the products disclosing under articles 8 and 9 have the obligation to disclose PAIs to ensure completion of the DNSH principle, they however do not have any obligation to "consider" PAIs, i.e. to go beyond mere information.

[35] Annex II to V PAI Delegated Regulation

[36] Article 4 PAI Delegated Regulation

[37] Table 1, Annex 1 PAI Delegated Regulation

[38] 'activities negatively affecting biodiversity-sensitive areas' means activities that are characterised by all of the following: (a) those activities lead to the deterioration of natural habitats and the habitats of species and disturb the species for which a protected area has been designated; (b) for those activities, none of the conclusions, mitigation measures or impact assessments adopted pursuant to any of the following Directives or national provisions or international standards that are equivalent to those Directives have been implemented: (i) Directive 2009/147/EC of the European Parliament and of the Council (9); (ii) Council Directive 92/43/EEC (10); (iii) an Environmental Impact Assessment (EIA) as defined in Article 1(2), point (g), of Directive 2011/92/EU of the European Parliament and of the Council (11); (iv) for activities located in third countries, conclusions, mitigation measures or impact assessments adopted in accordance with national provisions or international standards that are equivalent to the Directives and impact assessments listed in points (i), (ii) and (iii); (19) 'biodiversity-sensitive areas' means Natura 2000 network of protected areas, Unesco World Heritage sites and Key Biodiversity Areas ('KBAs'), as well as other protected areas, as referred to in Appendix D of Annex II to Commission Delegated Regulation (EU) 2021/2139'

[39] Table 2, Annex 1 PAI Delegated Regulation

[40] The IPBES identified the five direct drivers of biodiversity loss as changing use of sea and land, direct exploitation of organisms, climate change, pollution and invasive non-native species: IPBES, n.d., Models of drivers of biodiversity and ecosystem change. Available at: https://www.ipbes.net/models-drivers-biodiversity-ecosystem-change

- Investments in companies without sustainable oceans/seas practices ('[s]hare of investments in investee companies without sustainable oceans/seas practices or policies');
- Natural species and protected areas ('[s]hare of investments in investee companies whose operations affect threatened species' and '[s]hare of investments in investee companies without a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas');
- Deforestation ('[s]hare of investments in companies without a policy to address deforestation'); and
- Land artificialisation ('[s]hare of non-vegetated surface area (surfaces that have not been vegetated in ground, as well as on roofs, terraces and walls) compared to the total surface area of the plots of all assets').

1.6 The potential power of PAIs for biodiversity

As stated in the introduction of this paper, PAIs are currently the principal (if not the only) regulatory mechanism that could potentially enable revealing nature-negative investments and monitoring their reduction over time.

Information box on the DNSH Principle:

In the context of regulatory requirements and concepts which are focused on reducing investments in activities with negative environmental impacts, the Do No Significant Harm principle (**the DNSH Principle**) is also a critical component of the regulatory framework and a key element of both the Taxonomy Regulation and the SFDR. However, there are no detailed and specific disclosure requirements in relation to real world impact metrics associated with the application of the DNSH Principle.

- Under the Taxonomy Regulation, the DNSH principle is applied when assessing whether an economic activity is environmentally sustainable. Alongside technical screening criteria to determine whether an economic activity substantially contributes to an environmental objective, there are technical screening criteria to determine whether the economic activity does no significant harm to any environmental objective.[41] An economic activity must comply with both sets of technical screening criteria to be considered as environmentally sustainable. This assessment is carried out at the level of the economic activity and therefore applies to both non-financial and financial undertakings. The principal disclosure requirements under the Taxonomy Regulation[42] requires information about the DNSH assessment of economic activities[43] - but these do not amount to specific metrics about the negative impacts.[44]
- Under the SFDR, relevant financial institutions apply the DNSH principle when assessing whether sustainable investments of financial products comply with the DNSH principle established in the definition of "sustainable investment" in the SFDR. For these DNSH disclosures the requirement is to take into account the PAI indicators in order to show that the sustainable investments do not

[41] Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Commission Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities, Commission Delegated Regulation (EU) 2023/2485 of 27 June 2023 amending Delegated Regulation (EU) 2021/2139 establishing additional technical screening criteria for determining the conditions under which certain economic activities qualify as contributing substantially to climate change mitigation or climate change adaptation and for determining whether those activities cause no significant harm to any of the other environmental objectives
[42] Art 8 Taxonomy Regulation
[43] Regarding generic criteria for DNSH to protection and restoration of biodiversity and ecosystems, an Environmental Impact Assessment (EIA) or screening (1) must be completed in accordance with Directive 2011/92/EU (2).
[44] In addition, Art 17 Taxonomy Regulation sets out situations where an economic activity could be considered as significantly harmful to environmental objectives and specifies that this assessment should be carried out taking into account 'the environmental impact of the activity itself and the environmental impact of the products and services provided by that activity throughout their life cycle.'

significantly harm any environmental or social objective.[45] The PAI disclosures at financial product level referred to in Article 7 SFDR and the disclosures at entity level under Article 4 SFDR apply separately and should not be mistaken with the DNSH disclosures for financial products that make sustainable investments.[46]

PAI is thus the only reporting tool that involves precise metrics linked to biodiversity at financial product level. To be noted that the information on PAIs can be shown at a given time but also allow for an historical follow-up of the indicators.

If improved, PAIs could be a strong tool not only to properly reveal nature-negative investments but also to support the definition and monitoring of a trajectory of transition towards an economy less harmful to biodiversity.

However current gaps and inconsistencies prevent PAIs for biodiversity to reach their full potential.

[45] CDR 2022/1288
[46] As per ESMA, 22 November 2023, 'Do No Significant Harm' definitions and criteria across the EU Sustainable Finance framework

Section 2

Key gaps and inconsistencies for PAI disclosures on biodiversity

This section identifies key gaps and inconsistencies to identify possible routes forward so that PAI disclosures can more effectively reveal information on negative biodiversity impacts and guide a transition towards an economy less harmful for nature. Certain sections reveal gaps and inconsistencies specific to biodiversity topics (Sections 2.2 and 2.4) while others concern all PAIs (Sections 2.1, 2.3 and 2.5) with potential exacerbated negative effects for biodiversity topics.

2.1 A clear conceptual inconsistency in SFDR: PAI reporting requirements target the wrong financial products

When it comes to revealing comprehensive information on negative biodiversity impacts, there is a clear conceptual inconsistency at the heart of the PAI disclosure framework. Financial products which are structured to have *higher* sustainability performance are *more likely* to disclose PAIs than financial products which are *not* structured to have higher sustainability performance.

The general disclosure framework for financial products established in the SFDR requires that financial products which are structured to have higher sustainability performance must disclose information to evidence how they are achieving higher sustainability performance. The general disclosure framework therefore imposes higher reporting requirements for products with higher sustainability performance and less requirements for products with lower sustainability performance. PAI disclosure requirements map onto this general disclosure logic and impose less requirements to financial products with potential lower sustainability performance.

Indeed, firstly, the use of PAI indicators is mandatory to demonstrate that an investment qualifies as a sustainable investment in relation to the disclosure of DNSH principle. And the DNSH principle does not apply to financial products that do not qualify as ‘sustainable investment’ under SFDR.[47]

Secondly, financial market participants below the 500-employee threshold are free to decide to consider PAIs or not.[48] But considering PAIs and complying with related reporting requirements represents additional costs in staff and data collection. Moreover, there is currently no real and clear incentive to disclose and reduce PAIs (through for example a clear framework for the promotion of financial products supporting the transition[49]). It is therefore currently very unlikely that financial market participants below the 500-employee threshold with financial products invested in activities with high negative impacts on biodiversity will voluntarily choose to consider and disclose PAIs.

This means that the regulatory framework is not designed in a manner to reveal *comprehensive* information about nature-negative investments – because the financial products with lower sustainability performance can avoid disclosing PAIs. The implicit focus in the general disclosure framework on ensuring that the financial products which have the best sustainability performance provide evidence of this sustainability performance does not work to reveal much needed information about financial products with the worst sustainability performance.

In fact, a financial product which is invested in clearly unsustainable sectors with high negative environmental impacts, can simply disclose that it does not consider PAIs and explain why. This will mean that there is

[47] Article 2(17) SFDR
[48] Article 4 and 7 SFDR
[49] Or a clarification that MIFID II category c) of preference refer to a reduction of PAIs only.

limited or no information about the negative environmental impacts for financial products invested in sectors with the most significant environmental impacts, including negative impacts on biodiversity.

2.2 Poor integration of biodiversity topics into the PAI framework

Biodiversity-related issues are weakly integrated into the PAI framework. As previously mentioned, the PAI statement template includes only one mandatory PAI indicator directly related to biodiversity - activities negatively affecting biodiversity-sensitive areas (one among 14 compulsory indicators). Other mandatory indicators are indirectly related to biodiversity (such as emissions to water) but there is no explicit link in the metrics with impacts on biodiversity (for example, there is no reference to potential impact on marine biodiversity for the PAI linked to emissions to water). Therefore these indicators indirectly linked to biodiversity will not reveal additional information on biodiversity loss.

Moreover, in the list of additional PAIs there are also links to biodiversity (such as indicators linked to land degradation, agriculture practices or deforestation). However, financial market participants that disclose their PAIs must report on only one additional environmental indicator and one additional social indicator. Besides, the scope of biodiversity aspects covered by these additional indicators remains limited. [50]

Given the flexibility in the reporting requirement and the small amount of biodiversity indicators, it is not clear how often financial market participants will report against indicators linked directly or indirectly to biodiversity (and this is not withstanding the technical difficulties to report properly on these indicators [51]). In other words, the framework makes it possible for financial market participants to only disclose very limited information on biodiversity aspects associated with their investments and limits comparability between financial market participants, as they can choose to report on different additional indicators. This weakness is increased for PAI disclosures at financial product level where there is no mandatory template for PAI disclosures.

2.3 A compromised disclosure chain of information linked to the materiality assessment in the CSRD

The CSRD has an objective to harmonise companies' sustainability reporting and to improve the availability and quality of ESG disclosures. It has introduced specific requirements for the provision of sustainability information through implementing a suite of European Sustainability Reporting Standards (**ESRS**).

The ESRS are derived from recommendations put forward by the European Financial Reporting Advisory Group (**EFRAG**)[52] as guiding indicators for assessing a company's dependencies and impacts on environmental components. In theory the information disclosed by real economy corporations under this framework should inform the PAI disclosures of financial institutions.

The CSRD introduces different timeframes for the implementation of reporting obligations.[53] Since 1 January 2024[54] large (EU & non-EU) companies listed on EU regulated markets with more than 500 employees, exceeding €40 million turnover, and/or €20 million balance sheet need to comply with the CSRD. Much of its

[50] Indeed, the additional indicators do not address biodiversity loss and nature degradation resulting from alien invasive species, resource exploitation outside of construction projects, and only partially address soil health, for instance.

[51] Regarding mandatory PAI indicators on activities negatively affecting biodiversity-sensitive areas, French financial market participants often reported a 0 for this indicator, especially small entities. ADEME notes in the report that this reporting may be explained by the difficulties of financial market participants to apply the indicator (Analyse des remises « Article 29 LEC » 2023 portant sur l'exercice 2022, ADEME, March 2024).

[52] EFRAG's mission is to serve the European public interest in both financial and sustainability reporting by developing and promoting European views in the field of corporate reporting. Under the proposed CSRD, EFRAG was appointed technical adviser to the European Commission developing draft ESRS (see https://www.efrag.org/en/sustainability-reporting/about-sustainability-reporting).

[53] Larger companies are expected to comply earlier than smaller entities which applies to financial institutions classified as "large" or "listed" under the CSRD criteria.

[54] Reporting published in 2025

sustainability reporting requirements rely on the concept of *double materiality* (first introduced in the NFRD) which has two dimensions: *impact materiality* and *financial materiality*.[55] Therefore, conducting a materiality assessment is the critical first step for relevant companies to identify the material impacts, risks and opportunities which should be reported.[56] 'A sustainability matter is "material" when it meets the criteria defined for impact materiality […] or financial materiality […] or both.'[57] And '[a] sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long-term. Impacts include those connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships […].'[58]

The ESRS detail the specific data-points and methodologies which should be adopted for compliance with the CSRD reporting requirements. There are 12 ESRS across three categories: (1) mandatory cross-cutting standards[59] (such as ESRS 1 providing general requirements, and ESRS 2 describing general disclosures that companies must present related to their materiality assessment on the topics of governance, strategy, process of identification and management of sustainability impacts, risks and opportunities, and metrics and targets), (2) topical reporting standards (i.e. ESRS 3 to ESRS 12) being only relevant contingent on whether the company deems their activity to be material with regard to sustainability matters, and (3) sector-specific standards (under development). ESRS 4 on biodiversity and ecosystems is subject to this materiality assessment by the company.

The removal of the mandatory status of ESRS weakens the reporting of biodiversity impact at company level and consequently at financial product level as well. Indeed, when the company has reported indicators on biodiversity not material then invested financial market participants may only decide either to not consider PAI indicator linked to biodiversity or to report 0.[60]

It should be noted that alongside the current set of ESRS (which are sector agnostic), EFRAG's mandate granted under the CSRD also extends to the development of sector specific standards.[61] In theory this could improve the availability of the most important sustainability information for each economic sector. For example, if a sector specific standard for mining mandates disclosure of specific metrics which are the most relevant for the mining sector's environmental impacts. This would address some of the concerns about whether the application of the materiality principle works to limit a coherent flow of comprehensive sustainability information. However, in March 2023, the Commission asked EFRAG to prioritise work related to the implementation of the sector-agnostic ESRS. Because of this delay, EFRAG's current calendar identifies Q4 2024 for issuing an exposure draft for Oil and Gas and Mining, quarrying and coal mining sectors (with other sectors being further behind this planned schedule). Even if this timetable is complied with, it would be unlikely for the formal sector specific standards to be implemented in delegated legislation before 2026 with a start date potentially from 2027.

There is also the pragmatic observation that reporting on biodiversity related information is much more nascent (as compared to climate change mitigation for example). In relation to sustainability reporting generally, the Commission's fitness check of the NFRD identified limited comparability and reliability of sustainability information as significant problems.[62] This observation is likely to be more pronounced in the context of reporting biodiversity information.

---

[55] Annex I to the Commission Delegated Regulation (EU) 2023/2772 supplementing Directive 2013/34/EU, ESRS 1, Paragraph 37
[56] Annex I to the Commission Delegated Regulation (EU) 2023/2772 supplementing Directive 2013/34/EU, ESRS 1, Paragraph 25
[57] Annex I to the Commission Delegated Regulation (EU) 2023/2772 supplementing Directive 2013/34/EU, ESRS 1, Paragraph 28
[58] Annex I to the Commission Delegated Regulation (EU) 2023/2772 supplementing Directive 2013/34/EU, ESRS 1, Paragraph 43
[59] Biodiversity is a cross-cutting environmental issue, particularly in relation to climate issues, so the biodiversity disclosure requirements set out in the standard also address certain points in the other environmental standards (E1, E3 and E5).
[60] European Commission, 31 July 2023, Questions and Answers on the Adoption of European Sustainability Reporting Standards: Financial market participants and financial advisers may assume that any indicator reported as non-material by an investee company does not contribute to the corresponding indicator of principal adverse impacts in the context of the SFDR disclosures.
[61] Recital 53 of CSRD also covers 'information that undertakings should disclose depending on their sector of activity'
[62] Recital 13 CSRD

While the intended effect of establishing more detailed reporting requirements in the ESRS is to address this problem of comparability, enhance reliability and bridge the gap to provide detailed information necessary to understand the company's situation and development, it is too soon to assess what the ensuing market practice will be in terms of reliability of this information. The ESRS apply from 1 January 2024 for financial years beginning on or after 1 January 2024, so it is only now that we are seeing the first reporting in compliance with the ESRS. This also holds true for audit practice in relation to the new reporting requirements. The CSRD establishes enhanced audit requirements for sustainability information, but it is also too soon to see what the audit practice will be and there are several key aspects to the new audit framework which are yet to be put in place. The CSRD mandates the Commission to 'adopt delegated acts […] to provide for limited assurance standards setting out the procedures that the auditor(s) and the audit firm(s) shall perform in order to draw his, her or its conclusions on the assurance of sustainability reporting'[63] but the deadline for this is 1 October 2026.

This means that currently financial market participants may not have access to complete and accurate information on the negative biodiversity impacts of investee companies. Financial markets participants are constrained by the quality and exhaustiveness of the information provided at company level. Hence, even if the PAI framework is improved, it will remain inefficient to reveal nature-negative investments without a solid and comprehensive disclosure framework at company level.

2.4 The lack of international alignment on biodiversity reporting

The objective of reducing negative impacts on biodiversity raises questions linked to the geographic scope of reporting obligations. As a matter of fact, the risk of harming biodiversity is higher in areas with richer biodiversity, and the same activity (for instance a hydric stress) can have significant or non-significant impact depending on the area where it occurs. On this point, biodiversity diverges from climate mitigation issues that can be captured at a broadly global level. While biodiversity is spread across the whole planet, the critical areas for biodiversity conservation can be found outside of the EU (notably South America, Africa, Asia and Australia).[64] It is thus key to capture funds invested in activities harming biodiversity at European but also at global level. However, due to the lack of international alignment on reporting on biodiversity, there may be gaps regarding investments in activities located outside the EU.

Indeed, as a reminder, information disclosed under the CSRD will inform the reporting of PAIs linked to biodiversity. Nevertheless, for EU financial institutions with investments outside of the EU, it may be difficult to access information on the negative biodiversity impacts of investee companies. In theory, CSRD applies to non-EU companies when they have a legal relationship with Europe (companies listed on a European market and companies with a strong activity in Europe with a subsidiary or branch located in Europe[65]). We can however question if non-EU companies will in practice really comply, considering no sanction is attached to their reporting obligation in the Directive.[66] Moreover, when they do, they will most probably report on the negative impacts of the part of their activities located in Europe only. In practice this potential gap could be especially relevant for several European funds invested in big corporations active in oil and gas, metal and mining, food (meat processing) and agriculture, located in the US, Brazil, Australia and Singapore.

To reach international and EU goals of reduction of harm to biodiversity, one must start by mapping more comprehensively and accurately financial flows invested in economic activities harming biodiversity. Since our economy and financial system is globalised and biodiversity is spread around the world, this mapping must be done in all regions of the world. The SFDR and CSRD represent a first step, but they will most probably in practice mainly reveal EU financial flows and activities located in the EU with potential harm on biodiversity located in the EU, leaving out important negative impacts on biodiversity done by international supply chains,

[63] Art 3(15) CSRD amending Directive 2006/43/E
[64] See the interactive map of biodiversity hotspots by Critical Ecosystem Partnership Fund. Available at: https://www.cepf.net/node/1996
[65] Article 40a of the Directive (EU) 2022/2464
[66] Sanctions should however be provided at Member State level. The stricter they will be, the more efficient the system will be.

infrastructure or extraction projects in biodiverse areas such as the Amazon or Southeast Asia and Africa, for example.

2.5 Lack of clear guidance and supervision on the use of PAIs towards nature-transition

We have highlighted in previous sections how PAIs could be a strong tool for revealing nature-negative investments by fixing current gaps and inconsistencies. But revealing nature-negative investments will only be useful with an objective of reduction of harm to biodiversity. A promising avenue is to use PAIs as a transition tool. Yet, it is currently unclear if and how PAIs can be used to follow-up a trajectory of reduction of negative impacts, set targets and achieve reduction of negative impacts in the real economy.

Although the annual PAI statement includes some high-level elements for setting-up and following up a trajectory of PAI improvement (principally through historical comparisons[67] and description of shareholder engagement policies[68]) there are no clear equivalent provisions at product level. This means that information on historical comparison of PAIs and potential engagement strategies could be missing at financial product level. PAI disclosures at financial product level would be a lot more useful if they enabled a clear and comprehensive historical comparison for assessing whether a financial product is reducing its investments in activities having negative impacts on nature.

In the ESAs' Opinion to the Commission, the ESAs propose a 'Transition product category' 'for products that invest in economic activities / assets that are not yet sustainable, but which improve their sustainability over time to become environmentally or socially sustainable. The investment strategies of these products could build on [… among other things …] mitigation of PAIs at product level (provided that specific and relevant indicators are designed and that a minimum level of mitigation is set out in the Regulation).'[69] This would indeed provide an additional incentive for financial market participants to consider PAIs. Rightfully, the ESAs also call for further clarification from the Commission on the meaning of "consideration" of PAIs.[70]

An important precision should also be given regarding the improvement of PAIs and when it would be relevant to enter the transition category. Indeed, even in the case where historic comparison of PAIs is provided a key element would still be missing: the detailed information on how this improvement was achieved. If the PAIs have been improved at product level by simply selling out underlying assets with "bad biodiversity scores" then most probably no change in the real world would have happened. However, if the PAI was improved while staying invested in the same underlying assets, through an efficient engagement strategy for example, then the probability is higher that the financial product has supported the transition of its underlying assets towards a reduction of negative impacts on biodiversity. Therefore to demonstrate transition is achieved through a reduction of PAIs it is necessary to demonstrate (1) a quantitative improvement of PAIs, (2) a stability in the structure of the portfolio and (3) the detailed strategy implemented to mitigate PAIs (such as a strong engagement strategy with investee companies[71]).

In addition, the Corporate Sustainability Due Diligence Directive (**CSDDD**), which sets obligations for companies and financial institutions to adopt measures to identify, prevent and mitigate any adverse impact on human rights and the environment, does not fill the gaps mentioned in this section. Indeed, firstly, alternative investment funds and undertakings for collective investments are expressly excluded from the CSDDD. Secondly, the CSDDD excludes from its scope the downstream part of the activities of financial undertakings. Financial institutions are only invited to "consider adverse impacts and to use their so-called 'leverage' to influence companies."[72]

[67] Art 10 PAI Delegated Regulation
[68] Article 8 of the Commission Delegated Regulation (EU) 2022/1288
[69] ESAs, 2024, Joint ESAs Opinion On the assessment of the Sustainable Finance Disclosure Regulation (SFDR), Paragraph 21.
[70] Joint ESAs Opinion, On the assessment of the Sustainable Finance Disclosure Regulation (SFDR), 18 June 2024
[71] A brief summary of the engagement strategy as currently provided in the regulatory framework does not seem sufficient.
[72] Point(51) of Preamble of CSDDD

Lastly, it should be noted that any clarifications on the consideration of PAIs should then also be reflected in relation to category c) of sustainability preferences under MIFID II. Indeed, even though PAIs can be perceived as a technical information relevant to sophisticated investors[73], if clearly disclosed with historic comparisons and explained by financial advisors, they can become a strong tool for retail investors oriented towards sustainability. However, currently it is unclear if a retail investor expresses preferences for a financial product considering PAIs whether the financial product should only provide information on PAIs or mitigate them. It would appear logical that an investor expressing interest in sustainability would prefer to invest in a financial product aiming at reducing negative impacts on nature rather than merely disclosing them.

[73] ESAs, 2024, Joint ESAs Opinion On the assessment of the Sustainable Finance Disclosure Regulation (SFDR), Paragraph 48.

Conclusion

As explained in this paper, the concept of PAI is, as of today, the only regulatory mechanism that has the potential to reveal information about nature-negative investments and help support their reduction. However, this paper highlights several gaps and inconsistencies that reduce the effectiveness of current PAI framework. Certain gaps and inconsistencies are specific to biodiversity topics while others concern all sustainability topics, with potential exacerbated negative effects for biodiversity topics:

- There is a clear conceptual inconsistency in SFDR: PAI reporting requirements target the wrong financial products. Hence, financial products invested in activities with the potential most significant negative environmental impacts can potentially avoid disclosing PAIs (see Section 2.1);
- The degree of integration of biodiversity topics into the PAI framework is too low due to the small number of biodiversity indicators and metrics and the optional nature of many (see Section 2.2);
- There is a risk of compromised disclosure chain of information linked to the materiality assessment in the CSRD. Financial market participants are highly dependent on the disclosure and materiality process followed by the investee company on their negative biodiversity impacts because of the way the CSRD/SFDR reporting framework works. There is also the pragmatic observation that reporting on biodiversity related information is much more nascent (as compared to climate change for example) (see Section 2.3);
- Whereas most biodiversity hotspots are located outside of the EU, financial market participants may not have in practice easy access to information on the negative biodiversity impacts of non-EU investee companies and activities due to the absence of compulsory reporting frameworks worldwide (see Section 2.4); and
- Whereas disclosure on PAIs for biodiversity could be a useful tool to reveal nature-negative investments and incentivise their reduction, notably through the monitoring of PAIs by financial market participants implementing nature-transition strategies, clear regulatory guidance and supervision on the use of PAIs is currently lacking (see Section 2.5)[74].

Solving the current problem of lack of comprehensive information on nature-negative investments must be achieved in a political context where the Commission has set a target of reducing burdens associated with reporting requirements by 25%.[75] Notwithstanding this stated ambition, this paper shows there is still a significant gap in relation to disclosure requirements which are designed to reveal specific information about nature-negative investments. And this is similarly true at the international level where the existence of voluntary reporting frameworks do not replace formal and harmonised regulatory requirements. Navigating this path between ensuring we get the right biodiversity disclosures while at the same time not increasing the reporting burden is a difficult undertaking, particularly considering the timeline of when the various regulatory requirements apply and the short to medium term Biodiversity goals.

One key aspect to be considered in this discussion is the need to increase the utility of the PAI framework and, more globally, that of all sustainability information collected through disclosure requirements for corporate and financial market participants. It is essential to design the right regulatory framework so that disclosure of sustainability information is not an end to itself, but rather be translated into practical transition plans and serve as a useful tool within a broader policy framework aiming to reduce investments in activities with negative environmental impacts.

Moreover, it is to be noted that information on negative impact to biodiversity is more nascent and is not comprehensively integrated into the PAI framework (see Section 2.2). Therefore, in the specific case of nature and biodiversity, it remains very necessary to improve indicators and metrics contained in SFDR in order to collect comprehensive information on nature-negative investments.

---

[74] In line with the Joint ESAs Opinion on SFDR, dated 18 June 2024
[75] European Commission, 2023, Reporting burdens and rationalising reporting requirements

This paper reveals that there is still a lot more work to be done to ensure that the EU regulatory framework effectively contributes to Biodiversity goals. According to our analysis and the gaps and inconsistencies we have identified in this paper, it is unlikely that the current regulatory framework will incentivise a significant reduction of nature-negative investments. Fostering the development of an efficient disclosure framework will be essential to support the tracking of nature-negative investments and enhance investment strategies in favour of a nature-transition.

The gaps and inconsistencies we identified can be used to draw a roadmap of areas to improve, keeping in mind the need to build efficient disclosure mechanisms. Several areas should be investigated, such as revising the scope of financial market participants subject to PAIs disclosure to better target nature-negative investments, refining the list of mandatory PAI indicators and metrics for biodiversity and nature, ensuring the completeness of information provided by investee companies, campaigning for alignment on regulatory disclosures at international level and designing incentives for PAIs disclosures in relation to the promotion of nature-transition investment strategies.

In the meantime, we encourage financial market participants to make an active use of PAIs in their nature transition plans (through exhaustive assessment, as well as definition and monitoring of a trajectory of improvement).

Bibliography

ADEME, CGDD, 2024, Building a biodiversity approach. Available at: https://librairie.ademe.fr/ged/8721/Guide_biodiv_Art29LEC_vpublie_EN_final_20240320__1_.pdf

ADEME, 2024, Analyse des remises « Article 29 LEC » 2023 portant sur l'exercice 2022. Available at: Analyse des remises « Article 29 LEC » 2023 portant sur l'exercice 2022 - La librairie ADEME

AMF, 2022, Taxonomy regulation - Article 8: on reporting obligations of companies. Available at: https://www.amf-france.org/en/news-publications/depth/taxonomy

AMF, 2023, Publication de la Commission Climat et Finance Durable : résolutions climatiques. Available at: https://www.amf-france.org/fr/actualites-publications/actualites/publication-de-la-commission-climat-et-finance-durable-resolutions-climatiques

AMF, 2024, CSRD sustainability reporting: preparing for the new requirements. Available at: https://www.amf-france.org/en/news-publications/depth/csrd-sustainability-reporting

AMF, 2024, The AMF publishes, in a position paper, the key principles it believes should guide the SFDR review. Available at: https://www.amf-france.org/en/news-publications/news/amf-publishes-position-paper-key-principles-it-believes-should-guide-sfdr-review

AMF, 2024, Towards a review of SFDR. Available at: https://amf-france.org/en/news-publications/amfs-eu-positions/towards-review-sfdr

Carra, S. H. Z., Spandel, T., Pinto, P., & Flores, C., 2024, Technical note #1: Strengthening International Cooperation for Impactful Disclosures on Nature and Biodiversity. Climate and Company. Available at: https://climateandcompany.org/publications/strengthening-international-cooperation-for-impactful-disclosures/

Critical Ecosystem Partnership Fund, n. d., Explore the biodiversity hotspots. Available at: https://www.cepf.net/node/1996

Convention on Biological Diversity, 2022, Decision adopted by the Conference of the Parties on the Convention on Biological Diversity: 15/4. Kunming-Montreal Global Biodiversity Framework. Available at: https://www.cbd.int/doc/decisions/cop-15/cop-15-dec-04-en.pdf

Elliot, V., Jonäll, K., Paananen, M., Bebbington, J., & Michelon, G., 2024, Biodiversity reporting: standardization, materiality, and assurance. Current Opinion in Environmental Sustainability, Vol. 68. ScienceDirect. https://doi.org/10.1016/j.cosust.2024.101435

European Financial Reporting Advisory Group, 2024, IFRS Foundation and EFRAG publish interoperability guidance. Available at: https://www.efrag.org/en/news-and-calendar/news/ifrs-foundation-and-efrag-publish-interoperability-guidance

European Securities and Markets Authority, 2023, 'Do No Significant Harm' definitions and criteria across the EU Sustainable Finance framework. Available at: https://www.esma.europa.eu/sites/default/files/2023-11/ESMA30-379-2281_Note_DNSH_definitions_and_criteria_across_the_EU_Sustainable_Finance_framework.pdf

European Securities and Markets Authority, 2023, Final Report on draft Regulatory Technical Standards on the review of PAI and financial product disclosures in the SFDR Delegated Regulation. Available at: https://www.esma.europa.eu/sites/default/files/2023-12/JC_2023_55_-_Final_Report_SFDR_Delegated_Regulation_amending_RTS.pdf

European Supervisory Authorities, 2024, Joint ESAs Opinion On the assessment of the Sustainable Finance Disclosure Regulation (SFDR). Available at: Joint ESAs Opinion on the assessment of the Sustainable Finance Disclosure Regulation (SFDR)

European Commission, 2023; Fact sheet: Sustainable finance: Investing in as sustainable future. Available at: https://finance.ec.europa.eu/document/download/fbb0ae0d-3615-4c7d-b71e-edd5288c3027_en?filename=230613-sustainable-finance-factsheet_en_0.pdf

European Commission, 2024, Biodiversity strategy for 2030. Available at: https://environment.ec.europa.eu/strategy/biodiversity-strategy-2030_en#:~:text=The%20strategy%20aims%20to%20put,global%20post%2D2020%20biodiversity%20framework

European Commission, Directorate-General for Environment, 2020, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: EU Biodiversity Strategy for 2030 - Bringing nature back into our lives. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52020DC0380

European Commission, 31 July 2023, Questions and Answers on the Adoption of European Sustainability Reporting Standards. Available at: https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_4043

European Environment Agency, 2023, Unlocking finance and investments in nature. Available at: https://www.eea.europa.eu/en/topics/in-depth/sustainable-finance/unlocking-finance-and-investments-in-nature

Finance for Biodiversity Foundation, 2022, Aligning financial flows with biodiversity goals and targets, part 3. Available at: https://www.financeforbiodiversity.org/wp-content/uploads/Finance-for-Biodiversity-Foundation-Paper_Financial_Flows_3_2December2022.pdf

French Treasury, n.d., Guide pédagogique Décret d'application de l'article 29 de la Loi énergie-climat. Available at: https://www.tresor.economie.gouv.fr/Articles/9dda8d8c-85c4-4d74-ba6b-186f3fad4e79/files/f242d996-f393-4c11-b084-a3a627a44cf1

Grunewald, K., Zieschank, R., Förster, J., Hansjürgens, B. & Wildner, T. B., 2024, The future of economic reporting: ecosystem services and biodiversity in government and corporate accounting. One Ecosystem, Vol. 9. https://doi.org/10.3897/oneeco.9.e131326

Hessenius, M., Pruessner, E., Tietmeyer, R., & Wünsche, M., 2024, Transition Products – Conceptual Clarity & Implementation Guidance. Climate and Company. Available at: https://climateandcompany.org/publications/transition-products-conceptual-clarity-implementation-guidance/

Institut de la Finance Durable, 2024, Analyse comparée des standards de reporting ESRS et IFRS sur la durabilité : enjeu autour de la matérialité. Available at: https://institutdelafinancedurable.com/actualites/analyse-comparee-des-standards-de-reporting-esrs-et-ifrs-sur-la-durabilite-enjeu-autour-de-la-materialite/

Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, n.d., Models of drivers of biodiversity and ecosystem change. Available at: https://www.ipbes.net/models-drivers-biodiversity-ecosystem-change

Juergens, I., Franke, J., Knob, L., Nayan, L., Simon, L., Tetteroo, M., 2023, Review of the Sustainable Finance Disclosure Regulation's (SFDR) Disclosure Delegated Regulation: Biodiversity indicators and the coverage of the value chain. Climate and Company, Rae Guenther & Uni Kassel. Available at: https://climateandcompany.org/publications/review-of-the-sfdr-biodiversity-value-chains/

Principles for Responsible Investment, 2024, Policy Briefing: PRI Policy Priorities 2024-25. Available at: https://www.unpri.org/download?ac=21791

Principles for Responsible Investment, 2024, 2030 EU Policy Roadmap: Accelerating Private Investment for the Economic Transition. Available at: https://www.unpri.org/download?ac=20293

Simon, L., 2023, Why a standardised due diligence framework for the financial sector will steer sustainable development along the EU's supply chains. Climate and Company. Available at: https://climateandcompany.org/publications/a-harmonised-eu-due-diligence-framework-for-the-financial-sector-why-and-how/

Taskforce on Nature-related Financial Disclosures, 2023, Recommendations of the Taskforce on Nature-related Financial Disclosures. Available at: https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf?v=1695118661

World Benchmarking Alliance, 2024, Nature Benchmark (2022-2024). Available at: Nature Benchmark | World Benchmarking Alliance

World Economic Forum, 2021, What is 'nature positive' and why is it the key to our future? Available at: https://www.weforum.org/agenda/2021/06/what-is-nature-positive-and-why-is-it-the-key-to-our-future/

Regulation

Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("SFDR")

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 ("EU Taxonomy")

Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting ("CSRD")

Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation

Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives

Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports

Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards (“ESRS”)

Commission Delegated Regulation (EU) 2023/363 of 31 October 2022 amending and correcting the regulatory technical standards laid down in Delegated Regulation (EU) 2022/1288 as regards the content and presentation of information in relation to disclosures in pre-contractual documents and periodic reports for financial products investing in environmentally sustainable economic activities

Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Commission Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities

French law no. 2019-1147 of 8 November 2019 on energy and climate (*Loi n° 2019-1147 du 8 novembre 2019 relative à l'énergie et au climat*) ; « Article 29 LEC »

Implementing decree n°2023-1394 of 30 December 2023 (*Décret n° 2023-1394 du 30 décembre 2023 pris en application de l'ordonnance n° 2023-1142 du 6 décembre 2023*)

Finance ClimAct contributes to the implementation of French and European policies for sustainable finance, in line with the European Green Deal and France’s National Low Carbon Strategy.

It will develop the tools, methods, and new knowledge to achieve this goal in the coming years by: (1) supporting investments in energy efficient, and low-carbon industries, (2) considering the double materiality of climate change in financial management and supervision and (3) integrating environ mental objectives into retail investors’ decisions.

The project is coordinated by the French Agency for Ecological Transition, The Ministry for Ecological Transition, The Autorité des marchés financiers, the Autorité de contrôle prudentiel et de résolution, 2° Investing Initiative, The Institute for Climate Economics, the Institut de la Finance Durable and RMI.

Finance ClimAct is an unprecedented programme which comprises a total budget of 18 million euros, 10 million of which are provided by the European Commission.

Duration: 2019-2024

With the contribution of the European Union LIFE program